

is also the wider problem of cultural racism, largely captured by the term 'Islamophobia' – the prejudice, hatred or bigotry directed against Islam or Muslims.

The likes of Daesh exploit this by saying, 'the West does not accept you, you are duty-bound to protect the interests of Muslims, and you can only do so by joining the Islamic State'. Governments must not do the work of Daesh by placing Muslims in an invidious position by alienating and excluding them. What Western European-born Muslims want to hear is that they are part of an evolving European identity. This may well have a greater impact than fighting Daesh in Iraq and Syria.

Further research and policy thinking is needed to assess risks and to introduce early intervention strategies that identify vulnerable individuals and groups before attacks take place.

Challenging the discourse, or focusing on delegitimising violent Islamism or seeking to directly remove or replace individuals seen to be acting as the 'radicalisers' is not enough. Habitually, according to research carried out by German intelligence services, a high percentage of young Muslim men drawn to radicalisation and violent extremism have little or no knowledge of Islam.

In reality, it is more likely that vulnerabilities resulting from social *anomie*, social dissonance and a lack of social efficacy in individual and group experiences explain the backgrounds of young men associated with terrorism or violent extremism. It would seem that radicalisation is a local-area problem, and so the solutions to radicalisation are to be found in local areas, which require effective joined-up planning. After many years of coming to terms with countering violent extremism, there

is a greater awareness among senior policymakers that local context matters far more than originally thought.

The attack in Nice underscores the need to understand how to design early intervention programmes to better target potential 'lone actor' terrorists. This means that health and education authorities must cooperate on a local level with the police and security services. It is clear that lone actor violent extremism is unpredictable, and existing counterterrorism methods have only limited success in this regard. A lot more work is required.

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Financial Crime: An Intelligence-Led Response is Needed

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Intelligence gaps are at the heart of the UK's vulnerability to financial crime – evidence rather than supposition must form the basis of the response.

Whitehall has invested considerable resources in preparing for the late 2017 evaluation of its anti-money laundering (AML), counter-terror financing (CTF) and counter-proliferation financing (CPF) regime by the Financial Action Task Force (FATF). Since 2013, strategies have been launched, risk assessments published, information demanded and action plans announced. Former Prime Minister David Cameron has also spoken regularly about the damage

corruption causes to economic growth and wellbeing. In July 2015, he expressed determination that 'the UK must not become a safe haven for corrupt money from around the world'. Britain, he added, must 'stop corrupt officials or organised criminals using anonymous shell companies to invest their ill-gotten gains in London property, without being tracked down'. Yet such statements, while welcome, must be acted upon if they are to become more than just a politician's platitudes.

In October 2015, the government published an honest assessment of what it does not know about financial crime, or – in the lexicon of security – the existence of 'intelligence gaps'. Published jointly by the Home Office and HM Treasury, the *UK National Risk Assessment of Money Laundering and Terrorist Financing* (NRA) is a wide-ranging review of the nation's financial crime-fighting vulnerabilities. The NRA includes an assessment of the risks posed by the regulated sector – from banks,

lawyers and accountants, to casinos and estate agents – as well as the risks from products like e-money and digital currencies, not currently regulated but clearly in need of supervisory attention. As the NRA observed, the objective of the UK's response to financial crime is 'to ensure the financial system is a hostile environment for illicit finance'. To achieve this, the government prioritised plugging the intelligence gaps in its understanding of so-called 'high-end' money laundering. Such crimes are most often associated with major frauds and serious corruption, taking advantage of sophisticated techniques provided by the financial and professional services sectors, and involving investments in real estate and other investments while using complex corporate structures conceived to hide true ownership.

The NCA has repeatedly asserted that 'hundreds of billions of dollars are laundered through UK banks and their subsidiaries each year'

For the UK's lead agency for tackling serious and economic crime, the National Crime Agency (NCA), years of experience ensure that its knowledge of cash-based money laundering is extensive. The NRA notes that law enforcement agencies have dedicated considerable resources to tackling this form of crime, which continues to represent a high risk of money laundering. In contrast, the NCA's understanding of high-end money laundering is limited.

The NCA has repeatedly asserted that 'hundreds of billions of dollars are laundered through UK banks and their subsidiaries each year' or that 'billions of pounds of suspected proceeds of corruption are laundered through the UK each year'. London is a global financial hub, and a substantial portion of international illicit finance is inevitably facilitated by or passes through the UK financial sector at some point. Yet the evidence that this is



Police raid the Mossack Fonseca law firm in Panama, April 2016. Whitehall announced £10 million of extra funding to investigate wrongdoing related to the 'Panama Papers'. Courtesy of Arnulfo Franco/AP/Press Association Images.

the case, and information detailing how this actually happens, is almost entirely lacking.

This point is not made in an attempt to rebut the claims of the NCA, nor to suggest that the UK's financial services industry does not unwittingly or otherwise process and facilitate the laundering and circulation of the proceeds of corruption. Rather, the point is made to illustrate that these intelligence gaps mean that constructing any sort of effective response to high-end money laundering is extremely challenging.

In April, the government published its response to the weaknesses identified in the NRA in its *Action Plan for Anti-Money Laundering and Counter-Terrorist Finance*. It reiterated the need to fill intelligence gaps, particularly those associated with high-end money laundering through the financial and professional services sectors. To build this intelligence picture, the AML Action Plan proposed that the NCA work with partners (including the private sector) to increase its knowledge of high-end money laundering techniques and instruments. This would be done 'to identify, develop and action an increased number of opportunities for disruption and regular reassessment

of the threat ... and to inform the propositions for the regulatory approach'. This is welcome, but details are lacking. Without major investment, the myriad challenges already faced by the NCA, including a shortage of human and technical resources, will hamper success.

Constructing an effective response to high-end money laundering is extremely challenging

If the UK is going to tackle what its own law enforcement authorities believe is a serious problem of significant financial magnitude, then these intelligence gaps need to be filled urgently. Time is money. The longer effective interventions are absent the more the UK system is likely to be abused, creating greater risks to the country's reputation.

With this in mind, the following actions must be prioritised by the government if genuine progress against high-end money laundering is to be achieved.

First, an appropriate authority needs to be empowered to build the necessary intelligence picture. The financial crime-fighting apparatus is already considerably under-strength and focused on tactical actions, lacking time for research and analysis. Understanding high-end money laundering, an acknowledged government blind spot, requires the gathering of dedicated and financially sophisticated resources rarely found within the public sector today. After the Panama Papers revelations in April, Whitehall announced £10 million of extra funding to create a task force to bring together ‘the best of British expertise’ to investigate related wrongdoing. This is welcome, but the fact that the government felt the extra funding was necessary underlines the significant shortfall in funding and knowledge currently hampering efforts to understand the risks posed by such forms of sophisticated, high-end money laundering. If extra funding is needed every time a new complex case arises then it is fair to assume that current levels of resourcing are highly unlikely to achieve the advancement needed to create a step-change in knowledge and response.

The secrecy of the financial system lends itself to abuse

This links to the second critical element: public-private sector collaboration. The Joint Money Laundering Intelligence Taskforce (JMLIT), established in February 2015, has delivered an impressive level of public-private sector engagement. Corruption and high-end money laundering constitute one of the four priority themes pursued by the expert groups that support the work of the task force. However, private sector JMLIT participation is almost entirely limited to banks, the often unwitting facilitators of the hundreds of billions of pounds the NCA believes is laundered through the UK each year. Tackling high-end money laundering through the UK, its Overseas Territories (such as the British Virgin Islands) and the Crown

Dependencies of Jersey, Guernsey and the Isle of Man requires a task force of much broader expertise and experience. The membership of the JMLIT therefore needs to be expanded, and this expansion needs to be enacted urgently to include lawyers, accountants, and trust and service company providers, as well as banks.

Third, fully researched and detailed case studies and typologies of high-end money laundering, drawing on court cases and investigative reporting, must be developed. Too much guidance in this field is based on broadly drawn assertions. Newspaper headlines such as ‘To end corruption, start with the US and UK. They allow it in broad daylight’ (*The Guardian*, 12 May 2016) must lead to action by the regulated sector. Without investment in research and analysis, law enforcement’s ability to respond will remain neutered.

Fourth, and finally, regulation and supervision need to be enforced actively. In April, the AML Action Plan committed to ‘reform the supervisory regime and ensure that those few companies who facilitate or enable money laundering are brought to task’. The currently fragmented and variably applied supervisory regime seems to weigh most heavily on banks. However, those believed to *enable* high-end money laundering are subject to inadequate and intermittent supervision and regulation. This must change. The secrecy of the financial system lends itself to abuse. Those providers of professional services that are suspected of, or identified as, enabling such high-end money laundering need to be named and their identities and tradecraft shared with those (such as banks) they seek to abuse. Tools that enable financial anonymity must be treated with the suspicion they deserve or rejected by those approached to provide financial services.

The UK has rightly identified that its understanding of the role played by one of its key industries in facilitating global illicit finance falls far short of the standard required. This lack of knowledge is, at best, a risk to the nation’s reputation. At worst, it is a material failure of responsibility by a country that is a member of the G7, OECD, the FATF and a permanent

member of the UN Security Council, all bodies that have repeatedly stressed the importance of member states ensuring that their financial systems are properly monitored, controlled and understood to ensure the integrity of these systems.

If Whitehall is serious about tackling high-end money laundering, it must invest resources in gathering evidence to fill the intelligence gaps it has itself identified

Much more must be done in the UK to gather the evidence needed to support the assertions (right though they are likely to be) made by the NCA – that hundreds of billions of dollars are laundered through UK banks and their subsidiaries each year. For the FATF’s evaluation, the NRA has demonstrated a clear understanding of the money-laundering risks the UK faces; now effective responses and interventions must be devised.

There remains considerable work to do if the UK is to demonstrate that, as former Prime Minister Cameron underlined in his anti-corruption speech in Singapore twelve months ago, we are going to ‘get our [own] house in order’. This is all the more important given the increasingly widely held concern that the UK’s commitment to its anti-corruption agenda may wane in the face of the distractions of Brexit and the departure of Cameron. If Whitehall is serious about tackling high-end money laundering, it must urgently demonstrate a willingness to invest resources in gathering evidence to fill the intelligence gaps it has itself identified.

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